

When Noninfringing Alternative Bars Lost Profits Award

By **Jeffery Stec, Stuart Miller and Krishnan Ramadas** (August 19, 2020)

Plaintiffs in patent infringement litigation who practice the asserted patents may seek an award of lost profits and/or reasonable royalties.[1]

In instances where lost profits may be appropriate to consider, plaintiffs may attempt to prove up lost profits through a consideration of four factors from the U.S. Court of Appeals for the Sixth Circuit's 1978 decision in *Panduit Corp. v. Stahl Bros. Fibre Works Inc.*[2]

The second Panduit factor addresses whether there is a viable, noninfringing alternative. In the presence of said alternative, lost profits may not be appropriate because the noninfringing alternative could have been implemented instead.

In its 2017 decision in *Presidio Components Inc. v. American Technical Ceramics Corp.*, the U.S. Court of Appeals for the Federal Circuit summarized that a potential noninfringing alternative may be insufficient for an award of lost profits if it is (1) not acceptable to consumers or (2) not available.[3]

As was addressed this year by the U.S. District Court for the Western District of Pennsylvania in *The Sherwin-Williams Company v. PPG Industries Inc.*, failure to demonstrate availability can undermine a defendant's proposed noninfringing alternative.[4]

Here we consider availability and how that has been adjudicated in the context of a lost profits claim.[5]

As a side note, to a consumer, an alternative product can be one that is similar enough to another product that it meets the same consumer need. Implicit in this notion of availability is that the products are available in the market to consumers at the same time. However, this is different from what availability means from the seller's perspective. We focus our discussion of availability as it pertains to this production side.[6]

Two Options for Asserting Availability

In *Grain Processing Corp. v. American Maize-Products Co.*, the Federal Circuit in 1999 indicated, "The critical time period for determining availability of an alternative is the period of infringement for which the patent owner claims damages, i.e., the 'accounting period.'"[7] As discussed below, this suggests a proposed noninfringing alternative may meet the bar for availability if it either (1) was in the market during the accounting period or (2) was not in the market, but could have been commercialized readily during the accounting period.

While availability of an alternative that is in the market during the accounting period can be demonstrated by contemporaneous evidence (e.g., actual sales records, product marketing materials, customer feedback), demonstrating availability of a proposed alternative that is not actually in the market during the accounting period may require additional evidence.



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Indeed, in *Grain Processing*, the Federal Circuit indicated, "Switching to a noninfringing substitute after the accounting period does not alone show availability of the noninfringing substitute during this critical time."^[8] The Federal Circuit added, "When an alleged alternative is not on the market during the accounting period, a trial court may reasonably infer that it was not available as a noninfringing substitute at that time."^[9]

To demonstrate the availability of a noninfringing alternative not in the market during the accounting period, the "accused infringer ... has the burden to ... show[] that the substitute was available during the accounting period."^[10] Therefore, "an available technology not on the market during the infringement can constitute a noninfringing alternative."^[11]

In *Siemens Medical Solutions USA Inc. v. Saint-Gobain Ceramics & Plastics Inc.*, the Federal Circuit in 2011 added that a "substitute need not be on sale at the time of infringement, but if the substitute cannot be commercialized 'readily,' then it is not available for purposes of a lost profits determination."^[12]

Various considerations can aid in assessing availability and evaluating whether commercialization can readily take place.

Availability Considerations

The presence (or absence) of certain considerations can aid proof of the availability of a noninfringing alternative. Such considerations can include material, equipment, know-how and experience on the part of the infringer. A noninfringing alternative may be available, or could have been available, during the accounting period if the infringer demonstrates it possessed (or could access) the necessary production material and equipment.

One potential way to demonstrate access to the necessary material and equipment is to demonstrate that the infringer could have purchased the necessary products or components from a third party.^[13] Material and equipment must also be available in sufficient quantities to produce the noninfringing alternative.

A showing of production ability can be more straightforward when the necessary components are not heavily customized and are regularly held in inventory. In *Micro Chemical Inc. v. Lextron Inc.*, the Federal Circuit in 2003 noted that the necessary parts to convert the infringing machines were (1) "difficult to obtain in bulk," (2) "specially fabricated," and (3) "not maintained in inventory."^[14] The court concluded that the record demonstrated the alternative "was not available at the time of infringement."^[15]

However, the availability of material and equipment may be insufficient when there is insufficient know-how and experience. The Federal Circuit noted in *Grain Processing*, "the material and know-how for the alleged substitute were readily available at the time of infringement," and "the infringer 'had all of the necessary equipment, know-how, and experience' to make the substitution at that time."^[16]

Costs should be considered even if sufficient material and equipment exist along with the necessary experience and know-how. The Federal Circuit indicated in *Grain Processing*, even the ready availability of material and know-how alone did not make the substitute process 'available' for the lost profits calculus"; and noted "the high cost of necessary material can conceivably render a substitute 'unavailable.'"^[17]

Evidentiary Basis

In the Grain Processing decision, the Federal Circuit addressed evidence that is insufficient for proof of availability, particularly proposed alternatives that were not sold during the accounting period. The court noted, "[m]ere speculation or conclusory assertions will not suffice," as "[a]fter all, the infringer chose to produce the infringing, rather than noninfringing, product. Thus, the trial court must proceed with caution in assessing proof of the availability of substitutes not actually sold during the period of infringement." [18] The Federal Circuit added that "substitutes only theoretically possible will not" preclude or limit lost profits. [19]

In Sherwin-Williams, the focus was on what was (or was not available) in the market at the time of the alleged infringement. The plaintiff was able to sufficiently prove "the negative" and show that "no other products existed in the market, through its interrogatory to [the defendant] and deposition questions to [the defendant]'s corporate designee." [20]

An example of evidence that could be sufficient was listed by the U.S. District Court for the Northern District of California in Conceptus Inc. v. Hologic Inc. In that 2010 case, the court indicated the only support cited by the defendant "is a portion of the unsworn report of its own expert that relies exclusively on private conversations with [defendant] personnel." [21]

However, the court also referenced "research-and-development documentation, deposition testimony, or sworn declarations" as examples of evidence that could have been presented "that might demonstrate [the defendant]'s capacity to 'implement' noninfringing alternatives during the period of alleged infringement." [22]

Time to Implement

The time required to implement the alternative should also be considered in establishing an available noninfringing alternative. To the extent the time to implement would be prohibitive, this could undermine the availability of that alternative.

In Grain Processing, the infringer was "able to convert to the substitute manufacturing process in the remarkably short period of two weeks." [23] However, in Micro Chemical, the time to implement was not as rapid. The court observed that the defendant "took over four months to convert all of its infringing ... machines." [24]

The court also indicated that the machine parts necessary to avoid infringement were (1) "difficult to obtain in bulk," (2) "specially fabricated," and (3) "not maintained in inventory." [25] The court concluded the alternative "was not available at the time of infringement." [26]

While these two cases do not delineate a bright-line on timing, at least one district court looked at the timing in Grain Processing and Micro Chemical. In Ethicon Endo-Surgery Inc. v. Covidien Inc., the U.S. District Court for the Southern District of Ohio said in 2019:

In Grain Processing, however, a device was found to be available when "it took only two weeks to perfect [the alternative] and begin mass producing" the product. Yet in Micro Chem, the Federal Circuit found that a device was not available at the time of infringement when it took over four months to convert the infringing devices into non-infringing devices. [27]

In Ethicon, the court noted, "[the] record ... clearly shows that it would take [the defendant]

between 46 and 62 weeks" to implement the proposed design-around.[28] The court added, "it is undisputed, based on Covidien's own estimates, that it would have taken over 10 months to design-around the [asserted] patent — well over twice the time required to produce an alternative (which was deemed unavailable) in Micro Chem." [29]

The court granted Ethicon's motion for summary judgement on the absence of acceptable and available noninfringing alternatives.[30] In this instance, it appears that the four-month period in Micro Chemical was used as an upper bound in gauging availability.

Conclusion

In conclusion, while there is not a bright-line test, several guiding principles are informative in determining the availability of a noninfringing alternative.

An accused infringer may be more likely to demonstrate the proposed noninfringing alternative was available if (1) the alternative was in the market or could have been commercialized readily during the accounting period; (2) the necessary equipment, material, and know-how were available or acquirable by the defendant at the time of alleged infringement; (3) the proposed alternative was not prohibitively costly; (4) the proposed alternative was more than a theoretical possibility; and (5) the proposed alternative is supported by more than speculation.

Potential avenues through which defendants can augment their cases for asserted noninfringing alternatives include research and development documentation, deposition testimony, and sworn declarations. Conversely, plaintiffs seeking to challenge noninfringing alternatives may point to perceived gaps in these arguments.

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[1] *Lucent Technologies, Inc. v. Gateway, Inc.*, 580 F. 3d 1301, 1324 (Fed. Cir. 2009) citing *Panduit Corp. v. Stahl Bros. Fibre Works, Inc.*, 575 F. 2d 1152, 1157 (6th Cir. 1978). An award of lost profits and a reasonable royalty would occur if only a portion of infringing sales were subject to lost profits.

[2] *Panduit Corp. v. Stahl Bros. Fibre Works*, 575 F. 2d 1152, 1156 (6th Cir. 1978).

[3] *Presidio Components, Inc. v. Am. Tech. Ceramics Corp.*, 875 F. 3d 1369, 1380 (Fed. Cir. 2017).

[4] *The Sherwin-Williams Company v. PPG Industries, Inc.*, No. 2:17-cv-01023-JFC WL 1283465 (W.D. Penn., March 18, 2020).

[5] With regard to acceptability, the Federal Circuit has held that "to prove that there are no acceptable noninfringing substitutes, the patent owner must show either that (1) the purchasers in the marketplace generally were willing to buy the patented product for its

advantages, or (2) the specific purchasers of the infringing product purchased on that basis." See *Standard Havens Products v. Gencor Industries*, 953 F. 2d 1360, 1373 (Fed. Cir. 1991).

[6] As mentioned, availability can be thought of from the consumers' side as well. In this notion of availability, consumer preferences play a role in which alternative products are available (i.e., which other products may meet consumers' needs). That discussion goes beyond the scope of this article.

[7] *Grain Processing Corp. v. American Maize-Products*, 185 F. 3d 1341, 1353 (Fed. Cir. 1999) (referencing *State Indus.*, 883 F. 2d at 1579).

[8] *Id.* at 1353.

[9] *Id.* at 1353 (referencing *Rite-Hite*, 56 F. 3d at 1545).

[10] *Id.* at 1353.

[11] *Id.* at 1351 (citing *Slimfold Manufacturing Co. v. Kinkead Industries*, 932 F. 2d 1453, 18 USPQ 2d 1842 (Fed. Cir. 1991)).

[12] *Siemens Medical Solutions v. Saint-Gobain Ceramics*, 637 F. 3d 1269, 1288 (Fed. Cir. 2011) (referencing *Micro Chem.*, 318 F. 3d at 1123 and *Grain Processing*, 185 F. 3d at 1354).

[13] *Calico Brand, Inc. v. Ameritek Imports, Inc.*, 527 Fed. Appx. 987, 997 (Fed. Cir. 2013).

[14] *Micro Chemical, Inc. v. Lextron, Inc.*, 318 F. 3d 1119, 1123 (Fed. Cir. 2003).

[15] *Ibid.*

[16] *Id.* at 1123 (internal citations omitted).

[17] *Ibid.*

[18] *Grain Processing*, 185 F. 3d at 1353.

[19] *Id.* at 1353 (referencing *Minco, Inc. v. Combustion Engineering, Inc.*, 95 F. 3d 1109, 1119 (Fed. Cir. 1996)).

[20] *The Sherwin-Williams Company v. PPG Industries, Inc.*, No. 2:17-cv-01023-JFC WL 1283465 (W.D. Penn., March 18, 2020). at *9.

[21] *Conceptus, Inc. v. Hologic, Inc.*, 771 F. Supp. 2d 1164, 1179 (N.D. Cal. 2010).

[22] *Ibid.*

[23] *Grain Processing*, 185 F. 3d at 1346.

[24] *Micro Chemical*, 318 F. 3d at 1123.

[25] *Ibid.*

[26] Ibid.

[27] Ethicon Endo-Surgery, Inc., et al., v. Covidien, Inc., et al. , No. 1:11-cv-871, WL 2164090 (S.D. Ohio May 17, 2019) (citations omitted), at * 13.

[28] Ibid.

[29] Id. at * 14.

[30] Ibid.